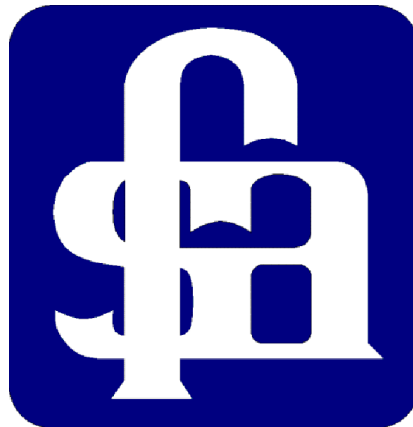


STATE BUDGET OVERVIEW



**Ellen Jeffries, Director
SENATE FISCAL AGENCY**

October 20, 2011

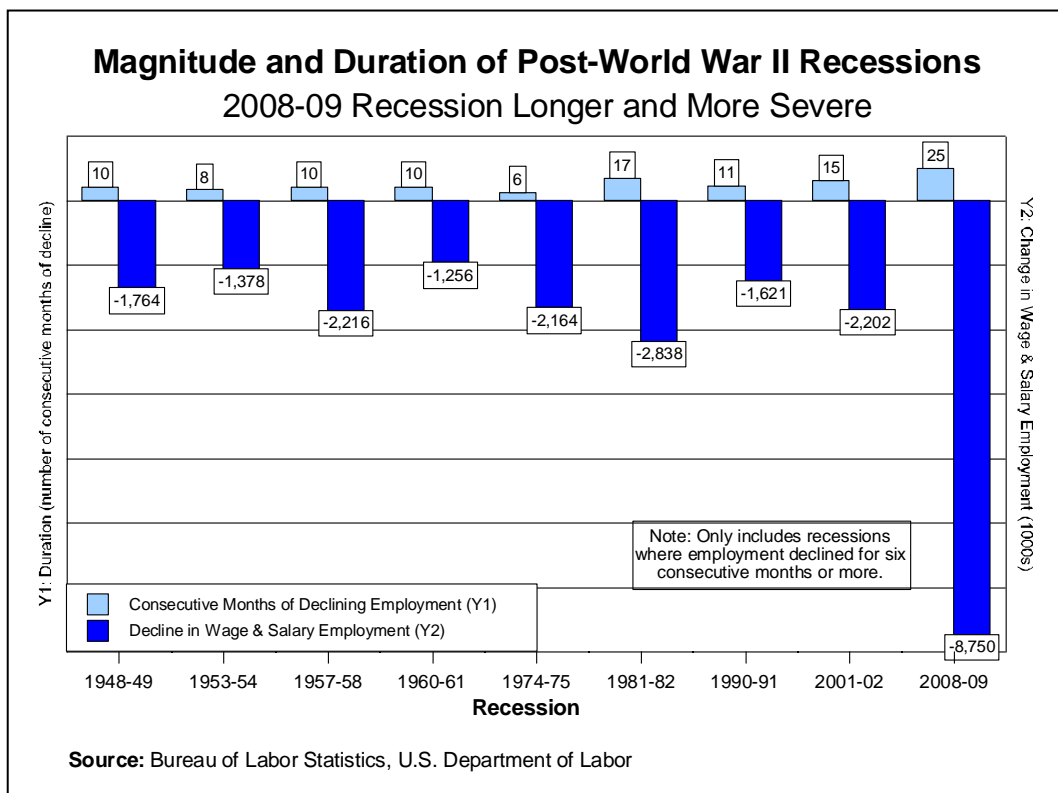
<http://www.senate.michigan.gov/sfa/>

The U.S. Economy

The 2008-09 recession was the most severe economic contraction in 70 years, both in duration and depth.

- Inflation-adjusted GDP fell 5.1% peak-to-trough.
- U.S. payroll employment declined 6.3% (8.75 million jobs).
- During the recession retail sales fell 13.5% between November 2007 and March 2009.
- Light vehicle sales started dropping earlier, and fell from a 17.6 million unit annual rate in January 2006 to a 9.2 million unit rate in February 2009 (a 47.4% decline).
- Housing starts fell from a high rate of 2.3 million units in January 2006 to 478,000 units in April 2009, a 79.0% decline.

Figure 1



Michigan Employment

Although Michigan had not yet emerged from the 2001 recession, the 2008-09 recession still had a significant impact.

- Payroll employment bottomed out in December 2009, down 413,300 jobs from December 2007 and down 783,400 jobs from the April 2000 peak.
- Peak-to-trough, payroll employment declined 17.0%, with 52.8% of the job loss occurring after December 2007.
- Between January 2000 and June 2009, Michigan lost 462,400 or 51.0% of the manufacturing jobs. After peaking in July 2000, transportation equipment manufacturing employment had fallen 68.8% by June 2009.

Figure 2

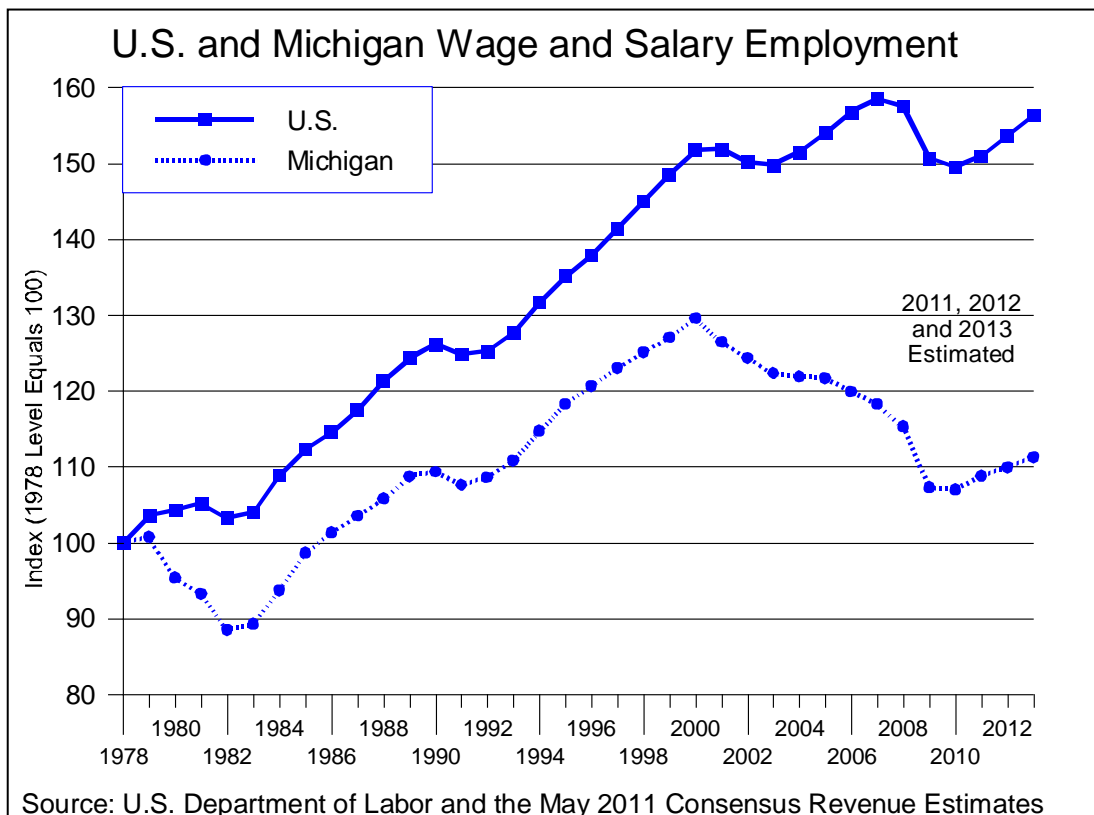


Figure 3

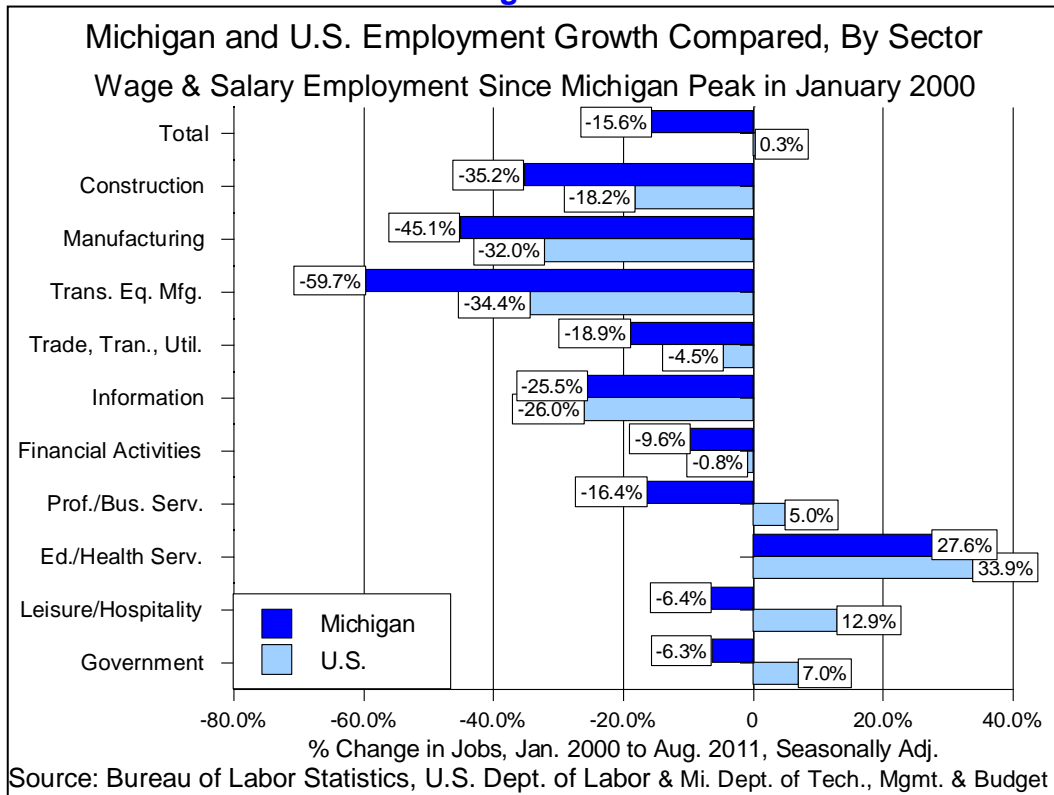
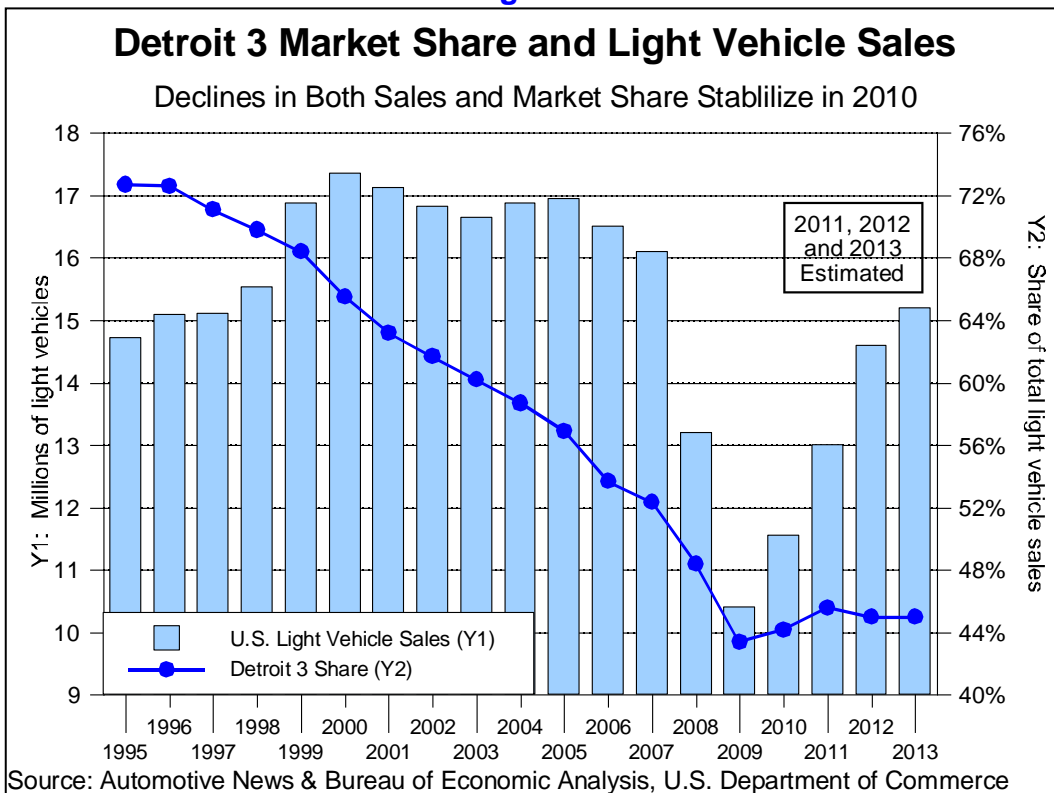


Figure 4



Michigan Personal Income

- Michigan personal income has increased by 17.1% over the past decade. The total level of personal income in the United States has increased by 44.4% since calendar year 2000. Personal income has grown by 32.1% in Indiana, 33.1% in Illinois, 28.0% in Ohio, and 38.7% in Wisconsin over the same time period. Michigan's personal income growth was the slowest among 50 states.
- During calendar year 2000, personal income in Michigan accounted for 3.42% of the United States total. During calendar year 2010, Michigan personal income accounted for only 2.77% of the United States total.
- During calendar year 2000, Michigan per capita personal income ranked 19th among the states. During calendar year 2005, Michigan's ranking fell to 31st among the states and by calendar year 2010, Michigan's ranking fell to 40th among the states.

Figure 5

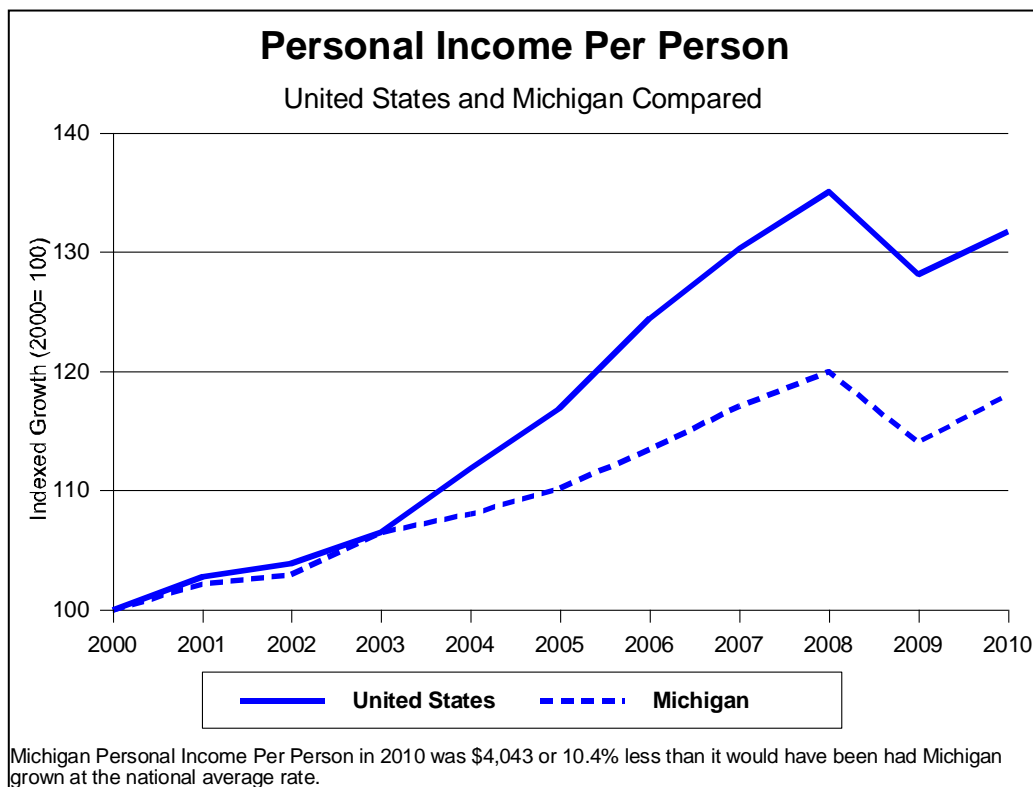
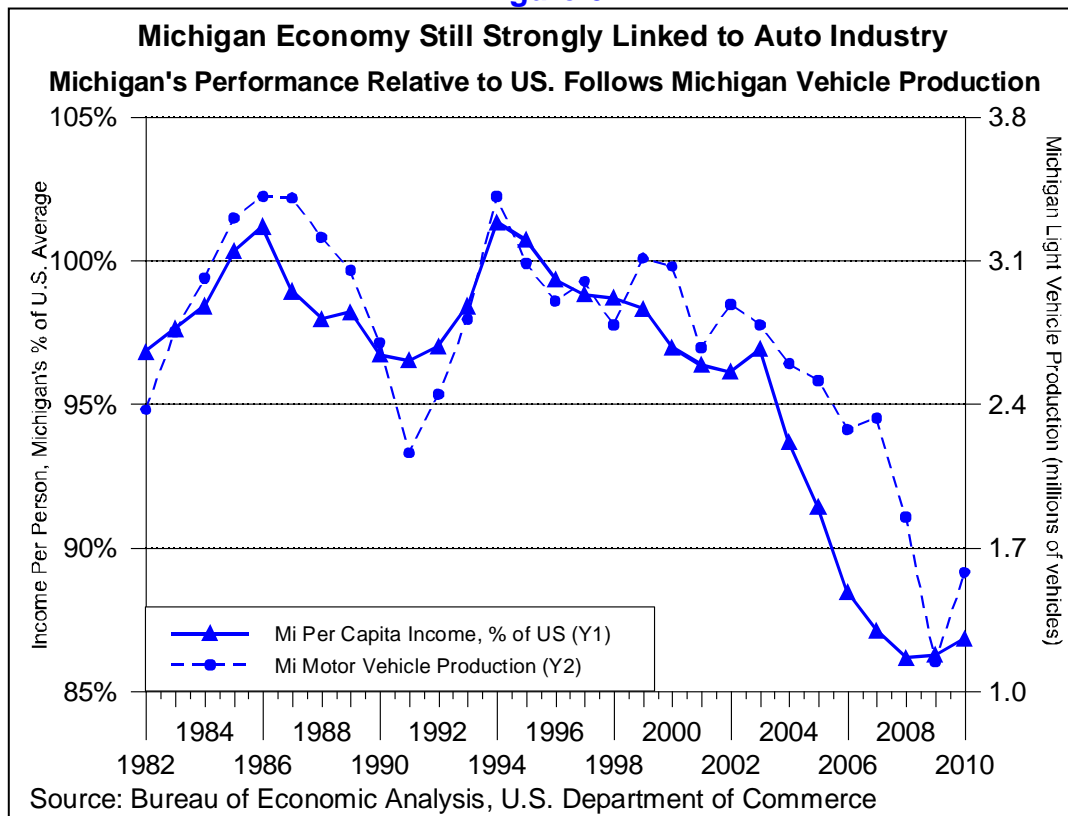


Figure 6



Recent U.S. Economic Highlights

- The economy is growing, but more slowly. After growing at an average annual rate of 3.0% between the middle of 2009 and the end of 2010, inflation-adjusted GDP has averaged 0.8% annual growth. In the second quarter of 2011, inflation-adjusted GDP grew 1.3%, up from the 0.4% rate in the first quarter.
- Despite gains, employment remains well below pre-recession levels. Nationally, payroll employment has risen for 12 consecutive months, and is 1.6% above the February 2010 trough. However, payroll employment is still 6.7 million jobs (4.8%) below the January 2008 peak.
- Employment is growing, but more slowly. U.S. payroll employment grew by 103,000 in September, and has averaged 72,000 per month since April. In the seven months prior to April 2011, employment averaged gains of 161,000 per month.
- Employment growth is not keeping up with population growth. The average employment gain has averaged about 110,000 jobs per month since the February 2008 trough, compared to about 177,000 per month during 2003-2006, and 251,400 per month over the 1993-1999 period. The economy needs roughly 150,000 additional jobs per month to keep up with population growth.
- The U.S. unemployment rate in September was 9.1%, unchanged for the last three months. The rate is down from 9.6% in September 2010, because more than 523,000 people have left the labor force.
- In inflation-adjusted terms, average hourly earnings have fallen for two months, with August down 2.2% from one year ago. Average weekly hours have remained essentially unchanged for the last year.
- Light vehicle sales have improved, but remain below pre-recession levels. Light vehicle sales are averaging 12.5 million units per year, up 8.2% from 2010; but well below the 16-17 million unit rate experienced between 1998 and 2007. September sales were up 7.9% from August and at the highest level since April.
- Housing starts remain low. While starts during 2010 were up 5.9% from 2009's record lows, year-to-date starts through August are down 3.5% from last August and are still down 72.0% from the 2005 peak. Starts have fallen for two consecutive months and August starts were down 7.2% from the June level.

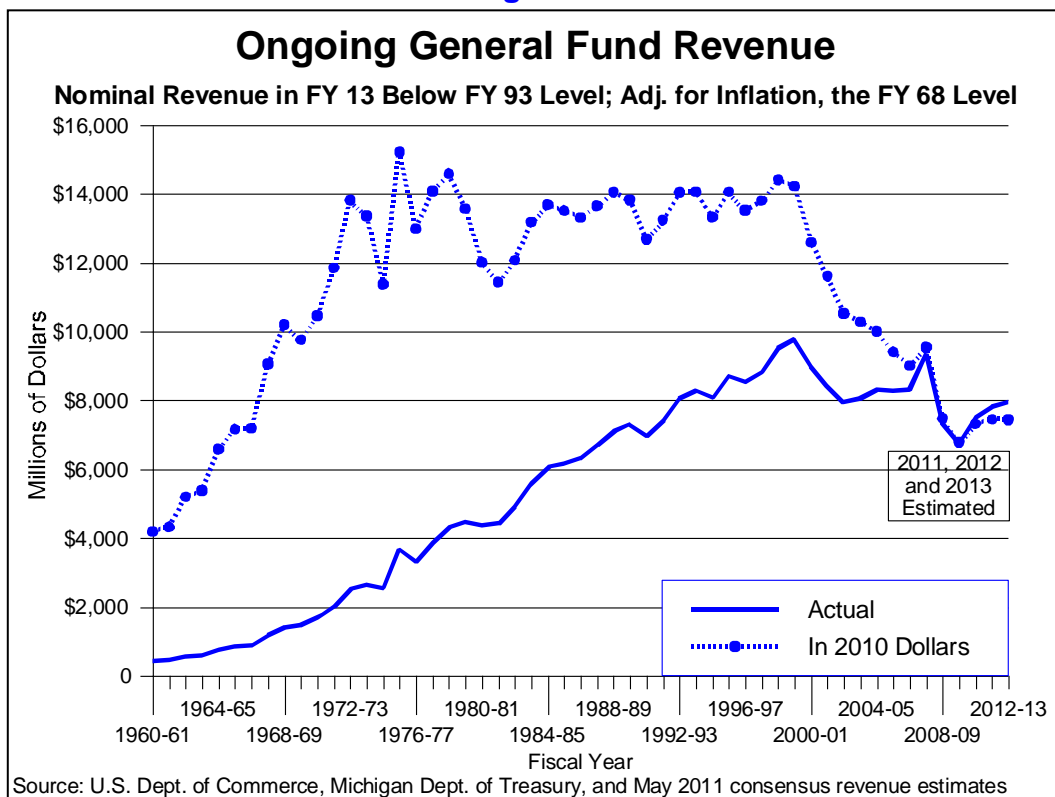
Recent Michigan Economic Highlights

- Payroll employment fell by 6,000 jobs in August, but was 80,000 jobs more than in August 2010. Manufacturing employment was 28,000 jobs above August 2010, led by a 15,000 job increase in transportation equipment manufacturing.
- Michigan's unemployment rate was 11.2% in August, up slightly from 10.9% in July, but down from 12.2% one year ago.
- On a seasonally adjusted basis, Michigan motor vehicle production increased 23.7% in August from the July level, and was up 24.5% from the year-ago level.
- Michigan personal income increased during much of 2010, at times more rapidly than the national average, but that growth has slowed. In 2010, total personal income increased 3.3%, compared with the U.S. average of 3.7%, ranking Michigan 35th. In the second quarter of 2011, Michigan personal income increased only 0.9%, below the national average of 1.1%, and ranking Michigan 47th.
- On a per-person basis, Michigan ranked 7th with personal income per person growing 3.5% in 2010, compared with the national average of 2.8%. Illinois ranked 34th, Indiana ranked 43rd, Ohio ranked 23rd, and Wisconsin ranked 12th.

State Revenue

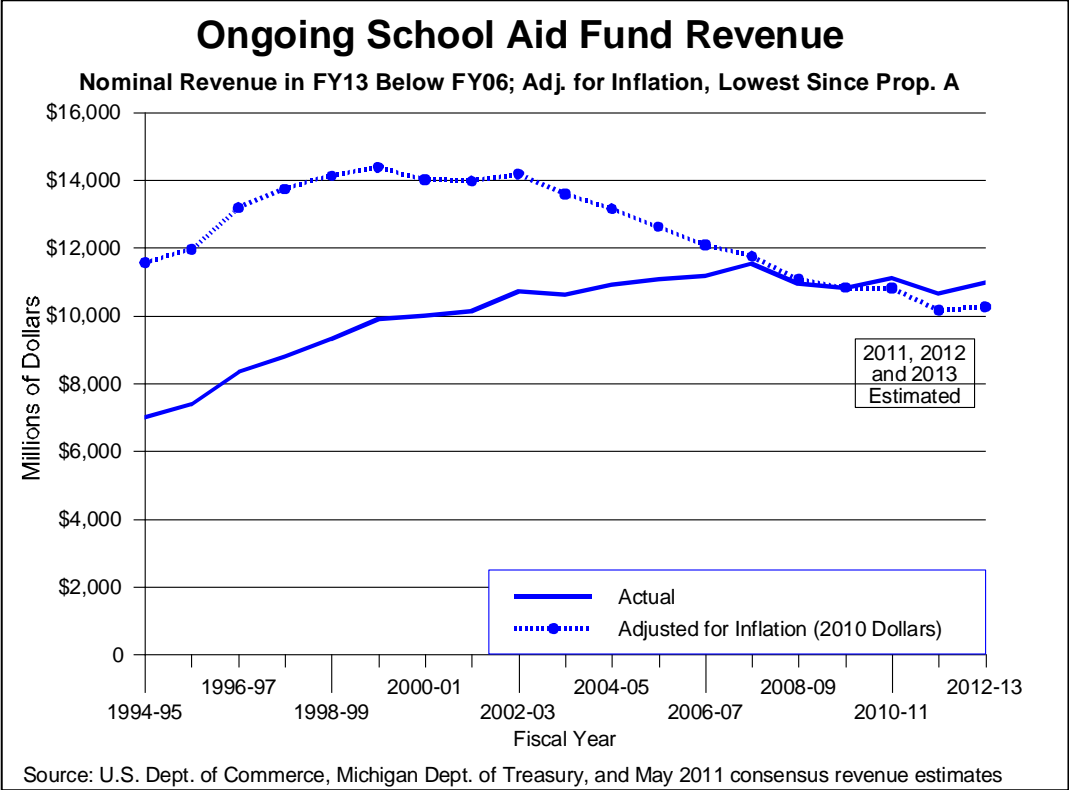
- The majority of State taxes and fees are deposited in the State's General Fund, School Aid Fund, or various transportation funds. Ongoing General Fund revenue has fallen as the economy has declined. Between FY 2007-08 and FY 2009-10, ongoing General Fund revenue fell 26.5% (\$2.6 billion) and ongoing School Aid (SAF) revenue fell 6.0% (\$696.0 million).
- On an inflation-adjusted basis, ongoing General Fund revenue in FY 2009-10 was 25.1% lower than the level in FY 1967-68, when the State adopted the new personal and corporate income taxes, as shown in [Figure 7](#).

Figure 7



On an inflation-adjusted basis, ongoing SAF revenue in FY 2009-10 was 6.4% lower than the level in FY 1994-95, when Proposal A took effect, as shown in [Figure 8](#).

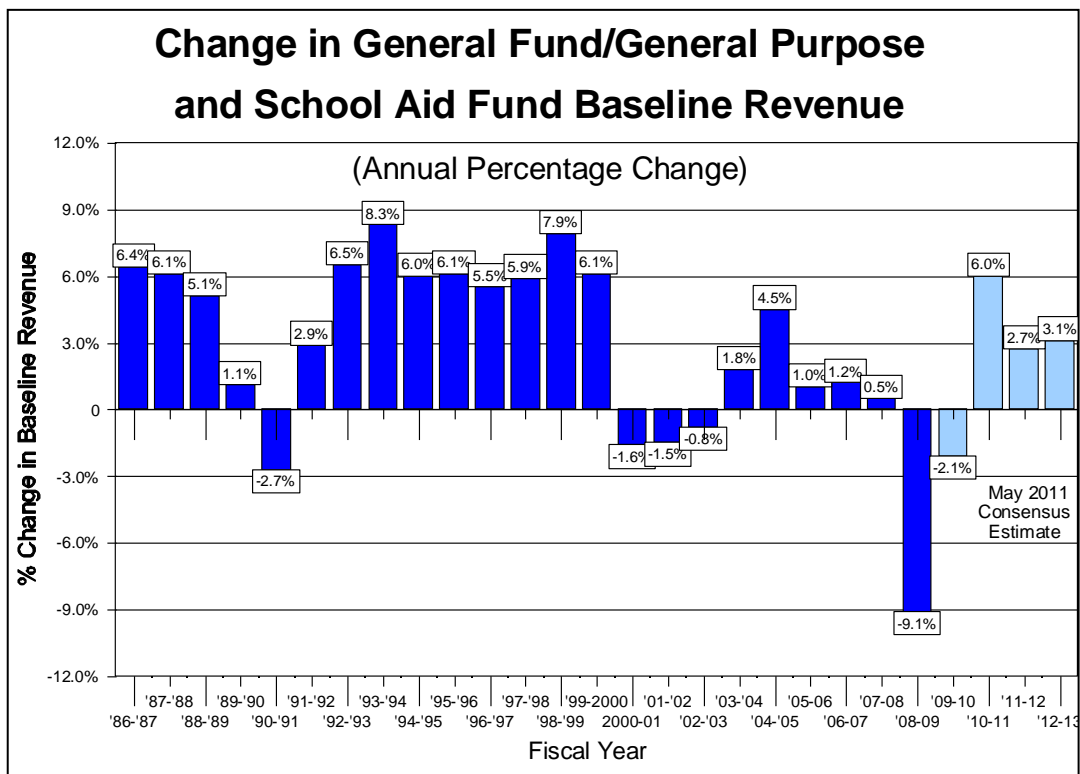
Figure 8



Forecast for State Revenue

- Pursuant to State statute, there are Consensus Revenue Estimating Conferences held in January and May of each year in which the State Treasurer, and the Directors of the House and Senate Fiscal Agencies, meet to agree on the amount of State revenue available for the State budget.
- The Governor and the Legislature used the revenue estimates from the May 16, 2011, Conference to finalize the FY 2011-12 budget.
- The percentage changes in baseline General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2009-10 through FY 2012-13 are compared with the actual growth rates during the preceding 20 years in [Figure 9](#).

Figure 9



- The increases in baseline revenue estimated for FY 2010-11 and FY 2011-12 represent the first increases in several years.
- FY 2010-11 GF/GP revenue is estimated to increase by 10.9% over FY 2009-10 and SAF revenue is estimated to increase by 2.7%. For FY 2011-12, after accounting for tax changes, GF/GP revenue is estimated to increase by 1.7% while SAF revenue will increase by 2.0%.
- The stronger economic fundamentals for FY 2011-12 will be offset by tax policy changes that will reduce GF/GP and School Aid Fund revenue.
- Figures 10 and 11 display the estimated FY 2011-12 revenue sources for the State General Fund and School Aid Fund, respectively.

Figure 10

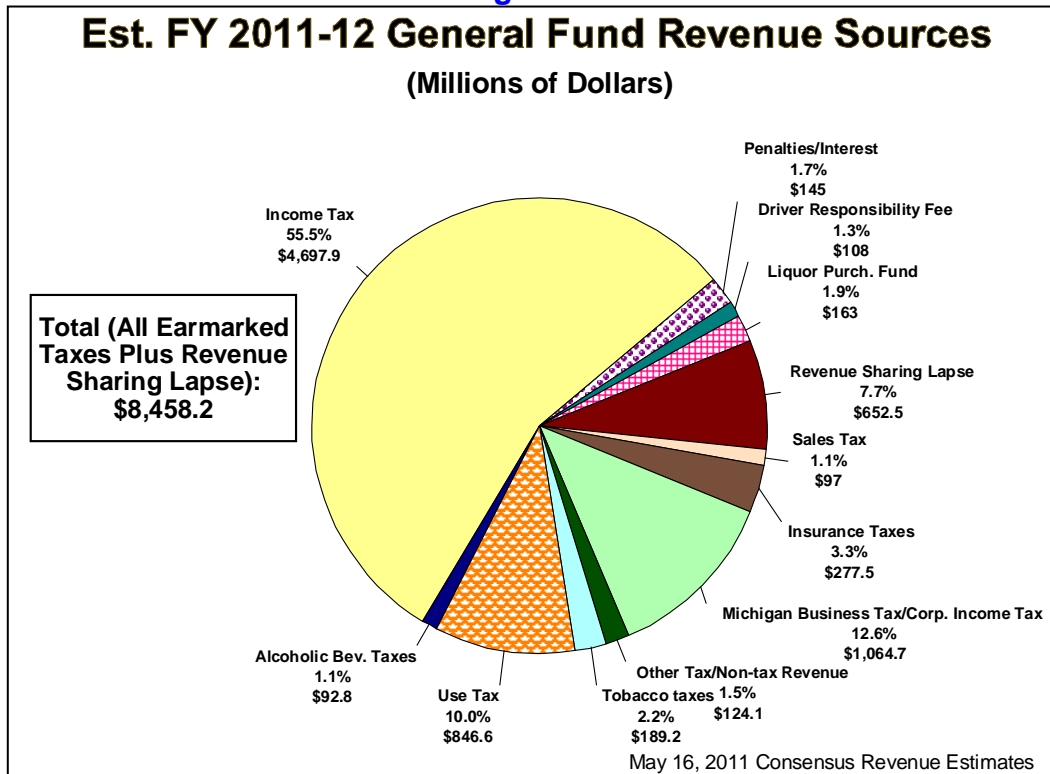
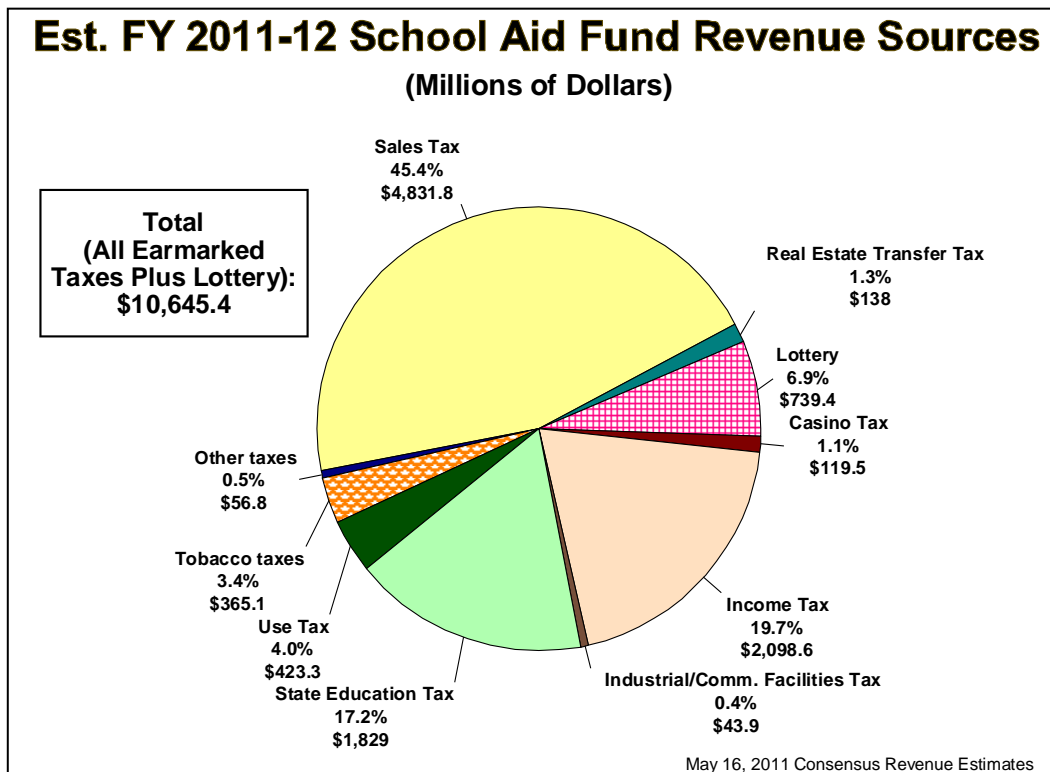


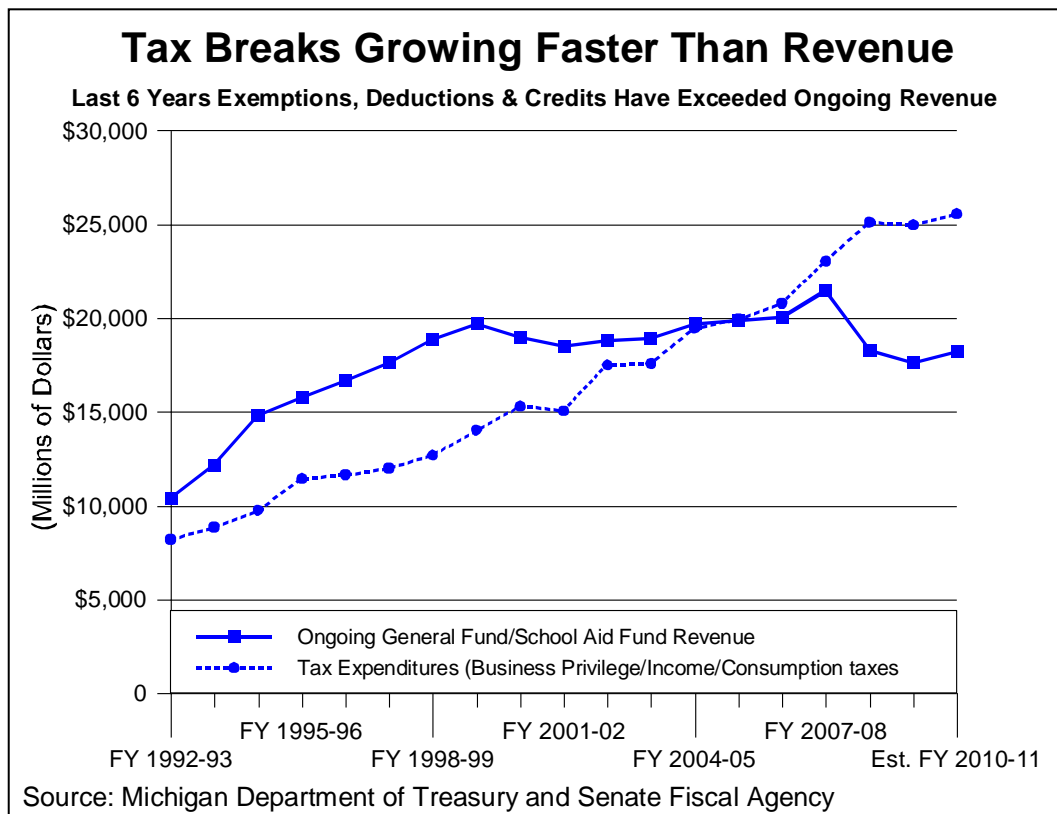
Figure 11



State Tax Expenditures

- Based on estimates of the Michigan Department of Treasury, the level of State tax expenditures has increased from \$14.1 billion in FY 1999-2000 to \$25.0 billion in FY 2009-10. The estimate for FY 2010-11 is \$25.6 billion.
- During FY 1999-2000 tax expenditures equaled 71.3% of ongoing GF/GP and SAF revenue. During FY 2009-10 tax expenditures equaled 141.8% of total ongoing GF/GP and SAF revenue.

Figure 12



- The growth in tax expenditures has primarily focused on consumption taxes and individual income taxes. Recently enacted tax expenditures include the earned income tax credit and the subsidy to the film industry.

- Table 1 provides details on major changes in tax expenditures from FY 1999-2000 to FY 2009-10.

Table 1

DETAIL ON MAJOR CHANGES IN TAX EXPENDITURES (Millions of Dollars)			
	FY 1999-2000	FY 2009-10	Dollar Change
Consumption Taxes			
Food	\$860.0	\$1,130.7	\$270.7
Industrial Processing	660.0	840.2	180.2
Prescription Drugs	242.0	535.3	293.3
Services	4,392.0	10,361.6	5,969.6
Individual Income Taxes			
Adjustments to Income	1,600.0	3,432.2	1,832.2
Homestead Property Tax Credit	471.0	1,006.6	535.6
Personal Exemption	987.0	1,170.3	183.3
Earned Income Tax Credit	0.0	353.8	353.8
All Other Tax Expenditures	4,859.4	6,182.0	1,322.6
Total Tax Expenditures	\$14,071.4	\$25,012.7	\$10,941.3

Tax Code Restructuring

- Public Acts 38, 39, and 40 of 2011 restructure Michigan's business and personal income taxes.
- The existing Michigan Business Tax (MBT) was repealed and is replaced with a new 6.0% Corporate Income Tax (CIT).
- Changes to the Michigan personal income tax include: freezing the personal income tax rate at 4.35% until January 1, 2013, modifying pension deductions and the homestead property tax credit, reducing the earned income tax credit (EITC), and eliminating most of the other credits, deductions, and exemptions.
- Table 2 outlines estimates of the fiscal impact for the State GF/GP and the School Aid Fund of the tax restructuring. The first year of the full impact of the changes will be FY 2012-13 when it is estimated that GF/GP revenue will increase by \$438.0 million and School Aid Fund revenue will decrease by \$662.1 million.

Table 2

ENACTED TAX RESTRUCTURING LEGISLATION
(Dollars in Millions)

Tax Provision	FY 2011-12			FY 2012-13			FY 2013-14		
	GF/GP	SAF	Total	GF/GP	SAF	Total	GF/GP	SAF	Total
<u>Previous Law:</u>									
Michigan Business Tax	\$1,401.4	\$757.6	\$2,159.0	\$1,214.0	\$776.6	\$1,990.6	\$1,184.6	\$796.0	\$1,980.6
<u>Enacted Reforms:</u>									
MBT (Prior to 12/31/11 repeal)	\$604.5	\$0.0	\$604.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Corp. Income Tax (Begin 1/1/12)	432.5	0.0	432.5	799.1	0.0	799.1	831.0	0.0	831.0
Financial Institutions Tax	27.7	0.0	27.7	43.9	0.0	43.9	43.9	0.0	43.9
Certified Credits Already Awarded	0.0	0.0	0.0	(500.0)	0.0	(500.0)	(623.0)	0.0	(623.0)
Net Business Tax Rev. After Credits	\$1,064.7	\$0.0	\$1,064.7	\$343.0	\$0.0	\$343.0	\$251.9	\$0.0	\$251.9
Tax Rate	\$172.0	\$0.0	\$172.0	\$223.0	\$0.0	\$223.0	\$415.4	\$0.0	\$415.4
Pension Provisions	177.4	47.5	224.9	259.6	83.7	343.3	265.3	88.4	353.7
Personal Exemption/Deduction									
Changes	48.7	15.2	63.9	161.2	20.3	181.5	165.5	21.5	187.0
Homestead Property Tax Credit	0.0	0.0	0.0	270.2	0.0	270.2	278.3	0.0	278.3
Earned Income Tax Credit Changes	0.0	0.0	0.0	261.6	0.0	261.6	269.4	0.0	269.4
Eliminate Nonrefundable Credits	73.9	0.0	73.9	103.5	0.0	103.5	106.6	0.0	106.6
Other Credit/Income Subtraction									
Changes	19.4	4.9	24.3	30.0	10.5	40.5	29.5	11.1	40.6
Net Individual Income Tax Changes	\$491.4	\$67.7	\$559.1	\$1,309.1	\$114.5	\$1,423.6	\$1,530.0	\$121.0	\$1,651.0
Net Impact of Enacted Reforms	\$1,556.1	\$67.7	\$1,623.8	\$1,652.1	\$114.5	\$1,766.6	\$1,781.9	\$121.0	\$1,902.9
Net Change from Prior Law	\$154.7	(\$690.0)	(\$535.3)	\$438.1	(\$662.1)	(\$224.0)	\$597.3	(\$675.0)	(\$77.7)
<u>Addendum: Impact by Taxpayer Type</u>									
Businesses			(\$1,094.3)			(\$1,647.6)			(\$1,728.7)
Individuals			\$559.1			\$1,423.6			\$1,651.0

Constitutional Revenue Limit

- Section 26 of Article IX of the State Constitution limits total State revenue to a maximum of 9.49% of Michigan personal income.
- Based on the revised revenue estimates, revenue subject to the Constitutional revenue limit is estimated to be approximately \$7.0 billion below the limit for FY 2010-11 and FY 2011-12 and \$8.4 billion in FY 2012-13.
- The figures do not reflect the impact of the recently enacted tax changes.

Figure 13

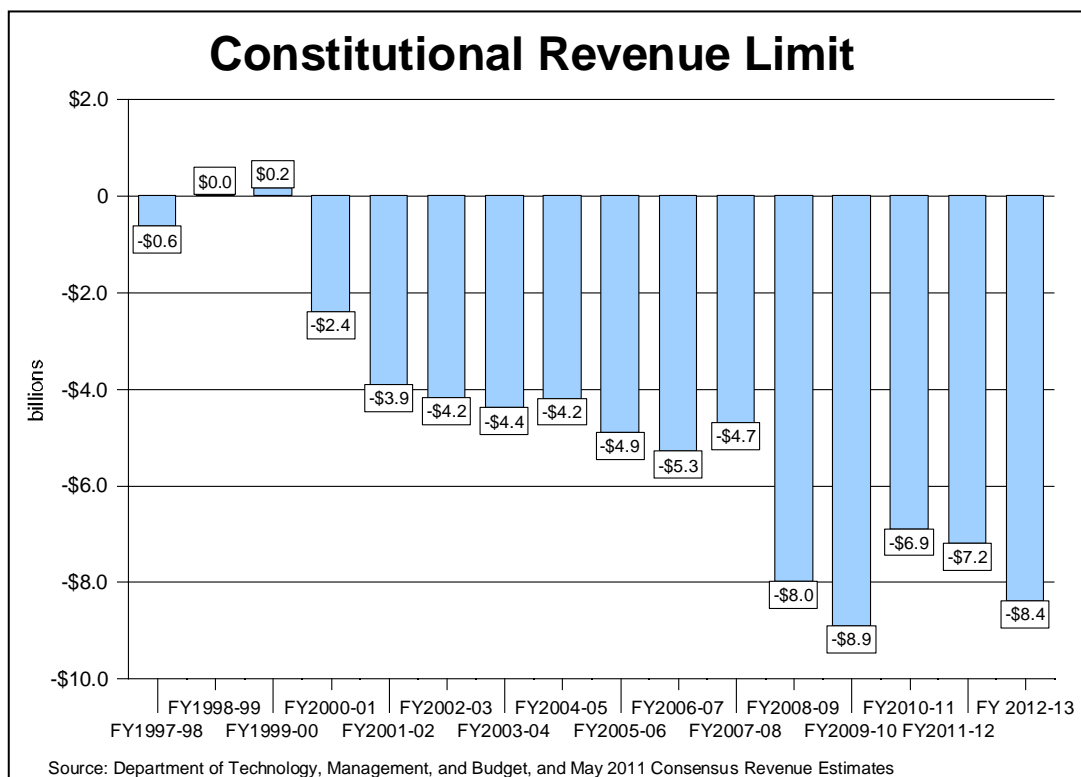


Figure 14

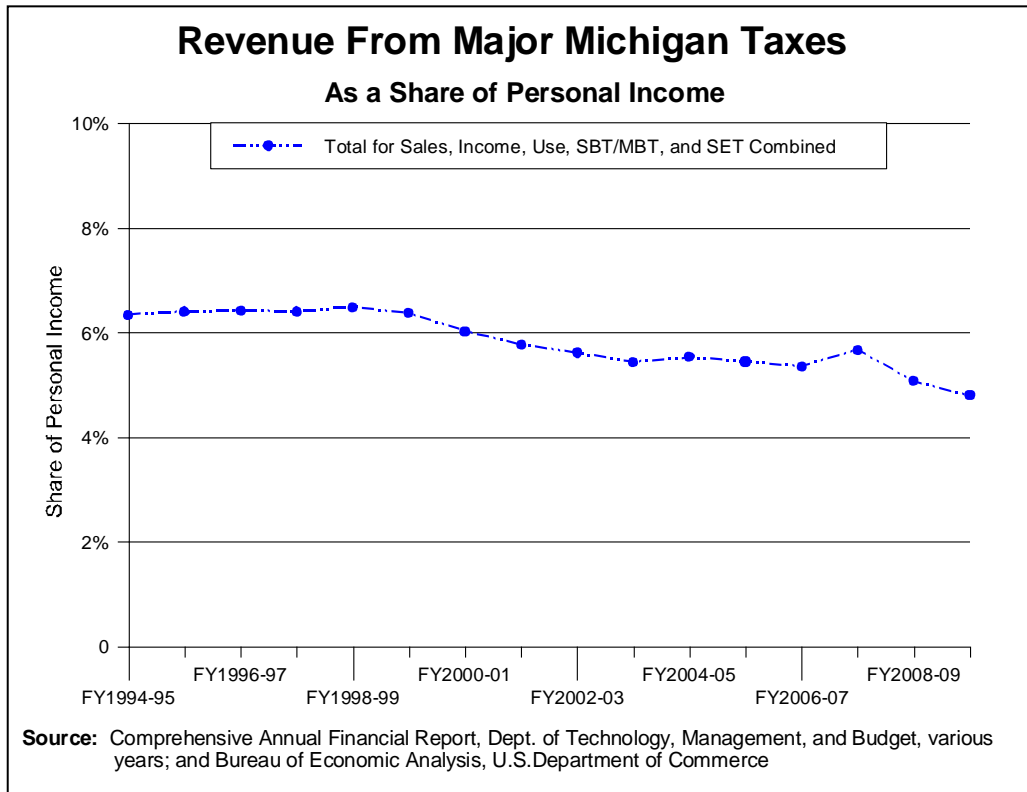
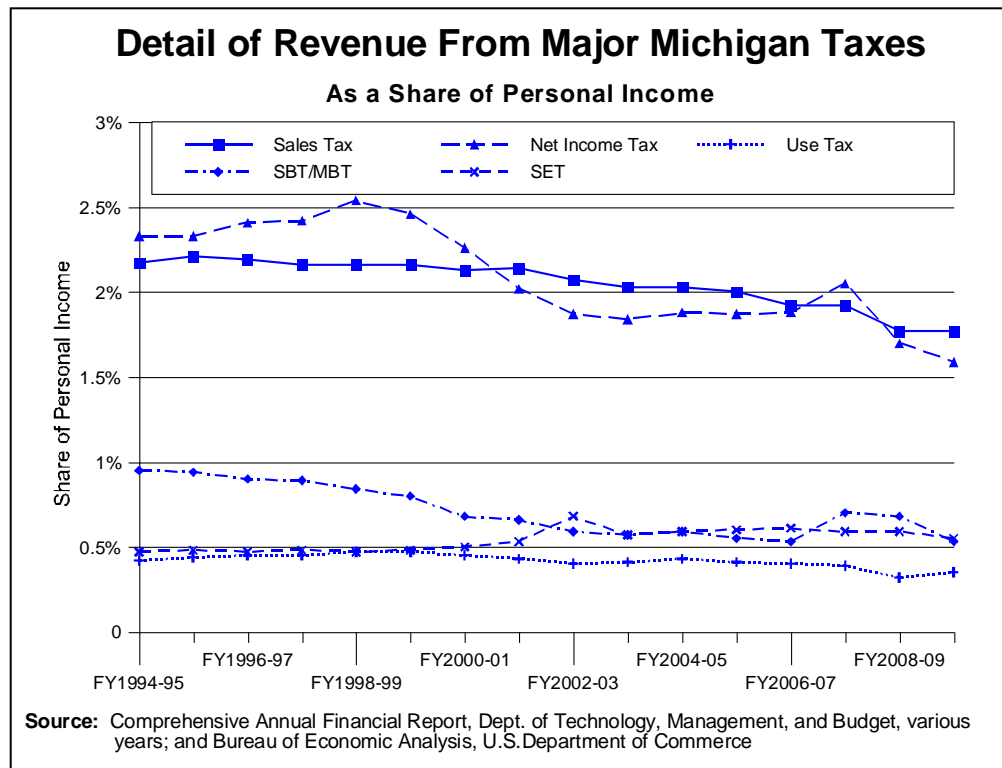


Figure 15



**The State General
Fund/General Purpose Budget
FY 2010-11 and FY 2011-12**

Table 3

BALANCING THE FY 2010-11 GF/GP BUDGET (Millions of Dollars)	
Current Law Revenue	\$8,011.8
Current Law Appropriations.....	9,588.3
Potential Budget Imbalance	(\$1,576.5)
<u>Actions Taken to Balance Budget:</u>	
Appropriation of Temporary Federal Funds	\$919.0
Appropriation Reductions	292.3
Debt Service Restructuring	77.3
State Employee Retirement Reforms.....	81.0
Tax Amnesty	61.8
Unclaimed Property Reforms	168.0
Other Restricted Revenue Transfers	11.0
Subtotal	\$1,610.4
Projected Year-End Balance (using May 2010 Revenue Consensus).....	\$33.9

- Over \$1.0 billion of the actions taken to balance the FY 2010-11 budget were one-time items.
- After the budget was enacted, FY 2010-11 revenue estimates were increased at both the January and May 2011 consensus conferences, and \$325.6 million in supplemental funding was appropriated, resulting in a revised projected year-end GF/GP balance of \$300.9 million.
- Cumulative GF/GP revenue collections as of September 30, 2011, exceed the May 2011 consensus by approximately \$150.0 million.

Table 4

SUMMARY OF FY 2011-12 APPROPRIATION CHANGES (Millions of Dollars)		
	Adjusted Gross	GF/GP
FY 2010-11 Year-To-Date Appropriation	\$47,509.9	\$8,386.2
<u>Changes for FY 2011-12:</u>		
New Programs.....	\$369.5	\$112.6
Program Increases	1,168.7	382.4
Program Eliminations	(986.2)	(48.6)
Program Reductions.....	(1,476.4)	(671.3)
Major Fund Shifts Affecting GF/GP	0.0	535.6
Economic Increases	197.1	104.7
Health Claims Assessment Impact.....	(388.4)	(528.4)
Adjustments for FY 2010-11 Transfers/ Supplementals.....	(243.6)	6.0
Other Technical Adjustments	(125.9)	(4.0)
Total Changes.....	(\$1,485.2)	(\$111.0)
FY 2011-12 Initial Ongoing Appropriation....	\$46,024.7	\$8,275.2

Figure 16

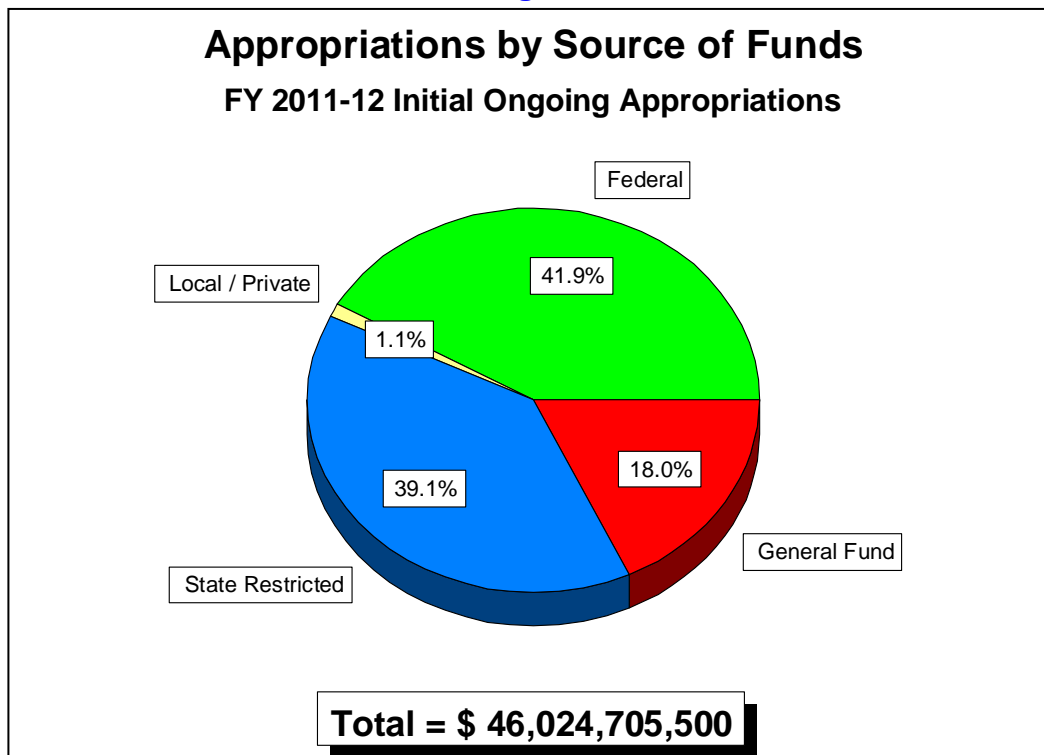


Figure 17

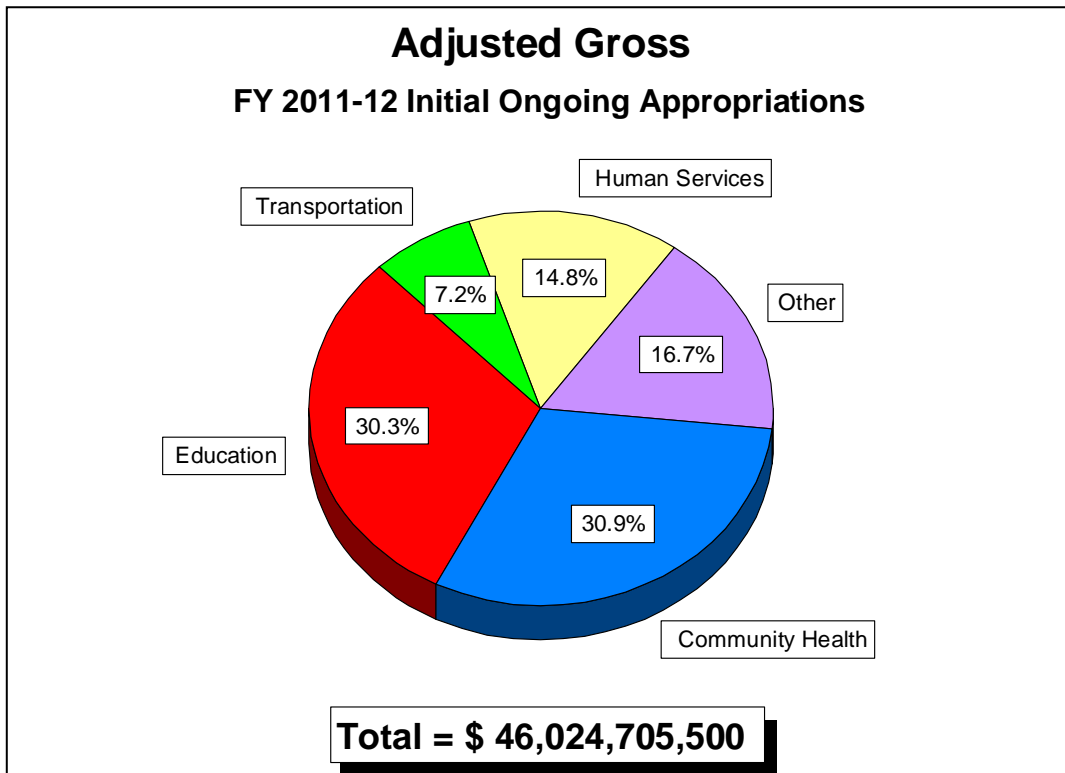


Figure 18

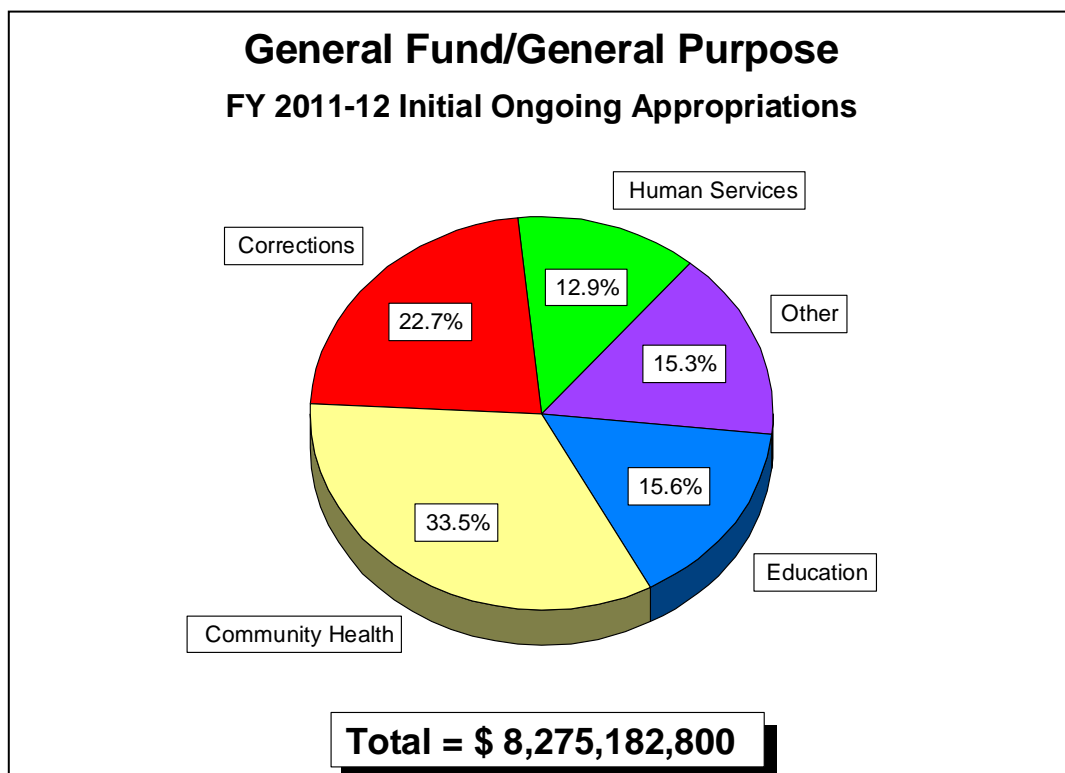


Table 5

FY 2011-12 ONGOING ADJUSTED GROSS APPROPRIATIONS INITIAL APPROPRIATIONS COMPARED TO FY 2010-11 YEAR-TO-DATE				
Department/Budget Area	FY 2010-11 Year-To-Date	FY 2011-12 Initial Appropriations	FY 2011-12 Change to FY 2010-11	FY 2011-12 % Chg to FY 2010-11
Agriculture and Rural Development	\$74,844,500	\$71,921,700	(\$2,922,800)	-3.9%
Attorney General	50,376,400	52,705,500	2,329,100	4.6%
Civil Rights	11,981,200	13,730,200	1,749,000	14.6%
Community Health	14,387,242,000	14,234,747,000	(152,495,000)	-1.1%
Corrections	1,990,398,100	1,935,630,000	(54,768,100)	-2.8%
Education	126,415,700	117,313,000	(9,102,700)	-7.2%
Environmental Quality	455,997,900	405,476,800	(50,521,100)	-11.1%
Executive	4,630,800	4,399,200	(231,600)	-5.0%
Human Services	7,047,289,900	6,826,186,800	(221,103,100)	-3.1%
Judiciary	255,446,800	253,399,700	(2,047,100)	-0.8%
Legislative Auditor General	12,694,900	12,136,900	(558,000)	-4.4%
Legislature	102,084,100	100,083,200	(2,000,900)	-2.0%
Licensing and Regulatory Affairs	1,327,065,000	798,116,900	(528,948,100)	-39.9%
Military and Veterans Affairs	154,447,700	151,330,700	(3,117,000)	-2.0%
Natural Resources	322,096,800	328,260,800	6,164,000	1.9%
State	192,906,200	191,885,000	(1,021,200)	-0.5%
State Police	511,357,800	500,736,500	(10,621,300)	-2.1%
Technology, Management, and Budget	383,602,000	408,215,400	24,613,400	6.4%
Transportation	3,636,450,000	3,324,319,200	(312,130,800)	-8.6%
Treasury-Debt Service	57,632,800	140,928,000	83,295,200	144.5%
Treasury-Operations	684,744,400	435,690,600	(249,053,800)	-36.4%
Treasury-Revenue Sharing	1,088,414,400	958,979,300	(129,435,100)	-11.9%
Treasury-Strategic Fund Agency	165,115,700	908,781,300	743,665,600	450.4%
Subtotal State Departments	\$33,043,235,100	\$32,174,973,700	(\$868,261,400)	-2.6%
Community Colleges	295,880,500	283,880,500	(12,000,000)	-4.1%
Higher Education	1,578,278,500	1,362,278,400	(216,000,100)	-13.7%
School Aid	12,954,236,200	12,203,572,900	(750,663,300)	-5.1%
Subtotal Education	\$14,828,395,200	\$13,849,731,800	(\$978,663,400)	-6.6%
Total State Depts. and Education	\$47,871,630,300	\$46,024,705,500	(\$1,846,924,800)	-3.9%
Other Post-Empl. Benefits Payment	0	140,000,000	140,000,000	na
Employee Concessions	0	(145,000,000)	(145,000,000)	na
Capital Outlay/Nat. Res. Trust Fund	102,101,000	0	(102,101,000)	-100.0%
Total Ongoing Adj. Gross Approps.	\$47,973,731,300	\$46,019,705,500	(\$1,954,025,800)	-4.1%

Table 6
FY 2011-12
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance.....	\$300.9
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (May 2011)	\$7,651.0
Revenue Sharing Savings	652.5
One-Time Appropriation for Revenue Sharing	(30.0)
Tax Code Reforms.....	339.8
Updated Estimate of Tax Code Reforms	(185.1)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	20.0
<u>Non-Ongoing Revenue:</u>	
Tax Amnesty	(49.8)
Unclaimed Property Reforms.....	35.0
Liquor Reforms	9.1
Northville Sale (Balloon Payment, Oct. 14, 2011)	6.5
Total Estimated GF/GP Revenue	\$8,749.9
Expenditures:	
Initial Ongoing Appropriations.....	\$8,275.2
Auditor General Boilerplate Appropriations	0.9
One-Time Appropriations.....	171.6
One-Time Appropriation to Budget Stabilization Fund	255.8
Public Act 38 of 2011: Tax Plan Implementation	1.0
Projected Lapse from State Building Authority Bond Sale	(19.8)
Employee Concessions	(145.0)
Payment for Other Post-Employment Benefits	140.0
Total Estimated GF/GP Expenditures	\$8,679.7
PROJECTED YEAR-END GF/GP BALANCE	\$70.2

Table 7

FULL-TIME EQUATED POSITIONS FY 2010-11 VERSUS FY 2011-12				
Department/Budget Area	FY 2010-11 Year-to-Date Positions	FY 2011-12 Initial Positions	Position Change	Percent Change
Agriculture and Rural Development	456.5	441.0	(15.5)	(3.4%)
Attorney General	514.0	514.0	0.0	0.0
Civil Rights	113.0	121.0	8.0	7.1
Community Health	4,392.8	3,634.2	(758.6)	(17.3)
Corrections	15,877.5	15,568.8	(308.7)	(1.9)
Education	562.5	560.0	(2.5)	(0.4)
Environmental Quality	1,480.1	1,334.5	(145.6)	(9.8)
Executive	74.2	74.2	0.0	0.0
Higher Education	1.0	0.0	(1.0)	(100.0)
Human Services	11,863.5	11,576.5	(287.0)	(2.4)
Judiciary	491.0	491.0	0.0	0.0
Licensing and Regulatory Affairs	4,359.5	4,320.8	(38.7)	(0.9)
Military and Veterans Affairs	970.0	819.0	(151.0)	(15.6)
Natural Resources	2,189.4	2,173.4	(16.0)	(0.7)
State	1,809.0	1,809.0	0.0	0.0
State Police	2,764.0	2,751.0	(13.0)	(0.5)
Technology, Management, and Budget	2,966.5	3,032.5	66.0	2.2
Transportation	3,016.3	3,043.3	27.0	0.9
Treasury (Operations)	2,034.5	1,745.5	(289.0)	(14.2)
Treasury (Strategic Fund)	155.0	820.0	665.0	429.0
TOTAL POSITIONS	56,090.3	54,829.7	(1,260.6)	(2.2%)

Figure 19

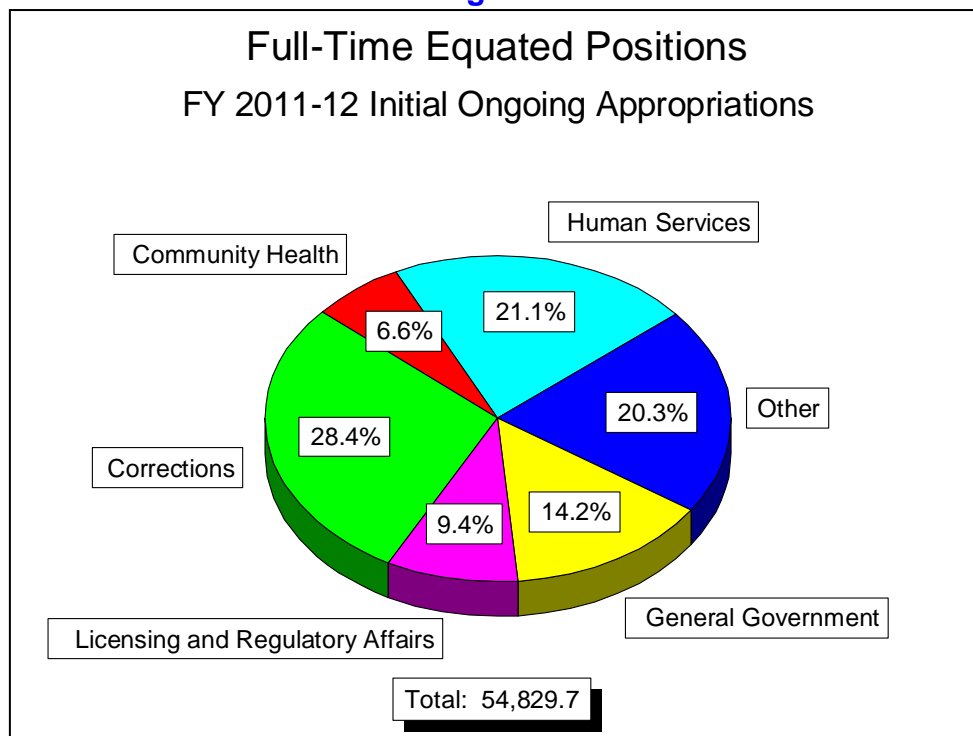


Table 8

TOTAL ACCUMULATED PENSION UNFUNDED LIABILITIES										
Fiscal Year	<u>MPSERS</u>		<u>SERS</u>		<u>STATE POLICE</u>		<u>JUDGES</u>		<u>LEGISLATIVE</u>	
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio
1999-2000	\$246,000,000	99.3%	(\$863,000,000)	109.1%	(\$72,400,000)	107.0%	(\$70,600,000)	134.6%	(\$31,782,000)	125.0%
2000-01	\$1,375,000,000	96.5%	(\$755,000,000)	107.6%	(\$75,000,000)	107.0%	(\$66,300,000)	129.5%	(\$29,778,000)	121.0%
2001-02	\$3,575,000,000	91.5%	\$137,000,000	98.7%	(\$5,600,000)	100.5%	(\$62,500,000)	127.3%	(\$23,300,000)	116.0%
2002-03	\$6,043,000,000	86.5%	\$1,320,000,000	88.8%	\$47,300,000	96.0%	(\$57,100,000)	124.3%	(\$17,519,000)	112.0%
2003-04	\$7,533,000,000	83.7%	\$1,855,000,000	84.5%	\$138,100,000	89.0%	(\$50,500,000)	121.3%	(\$9,967,000)	107.0%
2004-05	\$9,995,000,000	79.3%	\$2,503,000,000	79.8%	\$210,000,000	83.8%	(\$35,000,000)	114.4%	(\$2,806,000)	102.0%
2005-06	\$6,141,000,000	87.5%	\$1,909,000,000	85.1%	\$181,700,000	86.9%	(\$39,100,000)	116.0%	(\$940,000)	101.0%
2006-07	\$5,771,000,000	88.7%	\$1,818,000,000	86.2%	\$192,700,000	86.7%	(\$53,900,000)	121.8%	(\$4,437,000)	103.0%
2007-08	\$8,931,000,000	83.6%	\$2,363,000,000	82.8%	\$230,600,000	84.6%	(\$56,700,000)	123.0%	(\$590,000)	100.0%
2008-09	\$11,982,000,000	78.9%	\$3,127,000,000	78.0%	\$295,900,000	80.7%	(\$50,70,000)	120.7%	\$5,631,000	97.0%
2009-10	\$17,633,400,000	71.1%	\$4,078,100,000	72.6%	\$392,300,000	75.4%	(\$32,700,000)	113.0%	\$13,741,000	92.0%
FY 2009-10 Total Accrued Unfunded Liability for the five retirement systems equals \$22,084,841,000.										
Note: Negative numbers in the unfunded liability column represent surplus assets in a retirement system.										

Table 9

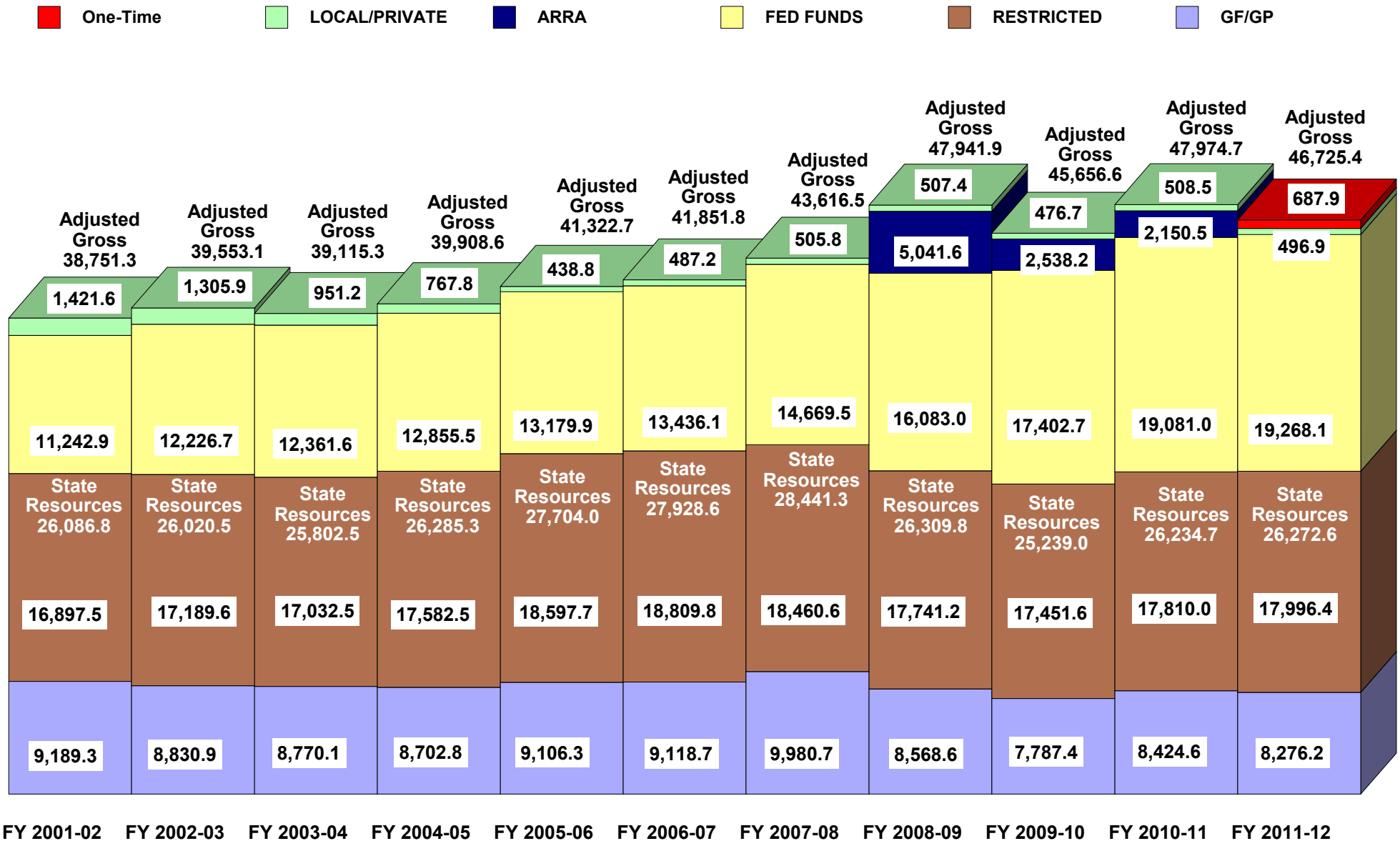
TOTAL ACCUMULATED HEALTH UNFUNDED LIABILITIES										
Fiscal Year	<u>MPSERS</u>		<u>SERS</u>		<u>STATE POLICE</u>		<u>JUDGES</u>		<u>LEGISLATIVE</u>	
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio
2005-06	\$24,757,000,000	2.5%	\$13,499,000,000	0.0%	\$944,400,000	0.0%	\$6,400,000	0.0%		
2006-07	\$24,957,000,000	3.0%	\$12,966,000,000	0.0%	\$918,100,000	0.0%	\$6,600,000	0.0%		
2007-08	\$25,979,000,000	3.1%	\$13,542,000,000	0.0%	\$963,000,000	0.0%	\$6,700,000	0.0%	\$118,309,000	11.0%
2008-09	\$27,582,000,000	2.5%	\$12,618,000,000	0.0%	\$882,300,000	0.0%	\$6,600,000	0.0%	\$122,282,000	11.0%
2009-10	\$27,627,200,000	3.5%	\$14,666,400,000	0.0%	\$1,055,900,000	0.0%	\$7,400,000	0.0%	\$139,373,000	10.2%
FY 2009-10 Total Accrued Unfunded Liability for the five retirement systems equals \$43,496,273,000.										

Table 10

FY 2011-12 ONE-TIME ADJUSTED GROSS AND TOTAL STATE SPENDING APPROPRIATIONS		
Budget Area/Program	Adjusted Gross Appropriation	State Spending Appropriation
Community Health		
Graduate Medical Education	\$17,129,400	\$5,800,000
Rural Hospitals	29,533,400	10,000,000
Healthy Michigan Fund	3,000,000	3,000,000
Community Mental Health Special Populations	3,000,000	3,000,000
Island Health Clinics	300,000	300,000
Environmental Quality		
Muskegon Cleanup Site	6,000,000	6,000,000
Higher Education		
Eastern Michigan University Autism Collaborative Center	500,000	500,000
Michigan State University Facility for Rare Isotope Beams (FRIB)	1,200,000	1,200,000
Western Michigan University Economic Development	200,000	200,000
Natural Resources		
Capital Outlay: Grand Marais Harbor	4,000,000	4,000,000
School Aid		
Public School Employees Retirement System (PSERS) Payments	155,000,000	155,000,000
Best Practices	154,000,000	154,000,000
PSERS Retirement Obligation Reform Reserve Fund	133,000,000	133,000,000
Partial Restoration of Small Class Size Grants	13,500,000	13,500,000
State Police		
Michigan International Speedway Traffic Control	800,000	800,000
Technology, Management, and Budget		
Asbestos Abatement at Former State Police Headquarters	1,250,000	1,250,000
Other Post-Employment Benefits Payment Adjustment	60,000,000	60,000,000
Transportation		
Swing Bridge Maintenance	500,000	500,000
Treasury-Revenue Sharing		
County Revenue Sharing	15,000,000	15,000,000
Cities, Villages, Townships Economic Vitality Incentive Program	15,000,000	15,000,000
Treasury-Strategic Fund		
Economic Development	50,000,000	50,000,000
Film Incentive Funding	25,000,000	25,000,000
Subtotal One-Time Appropriations	\$687,912,800	\$657,050,000
Appropriation to the Budget Stabilization Fund	255,800,000	255,800,000
TOTAL ONE-TIME APPROPRIATIONS	\$943,712,800	\$912,850,000

State Of Michigan Appropriations by Fund Source

Year-To-Date (Millions of Dollars)



Notes: Adjusted Gross = Total appropriations for all departments. State Resources = State restricted + GF/GP appropriations.
One-Time does not include \$255.8 million appropriation to BSF.

Senate Fiscal Agency, October 21, 2011

**School Aid Fund
FY 2011-12 and FY 2012-13**

School Aid Major Highlights

- The FY 2011-12 and FY 2012-13 School Aid budget includes nearly \$396.0 million in spending from the School Aid Fund (SAF) to support community colleges and universities, and also sees a net tax revenue loss of \$590.0 million, for a total loss of revenue available for K-12 purposes of nearly \$986.0 million each year.
- The reductions for K-12 include not replacing the \$316.3 million in Federal Education Jobs Fund revenue that was used in FY 2010-11 to backfill the \$170-per-pupil cut in State aid, and reducing the foundation allowance a further \$300 per pupil. The additional per-pupil State cut equates to \$452.5 million in State savings.
- A net \$62.0 million in categorical spending is reduced or eliminated. The largest of these eliminations includes \$20.0 million for declining enrollment, \$15.3 million in Special Education intermediate school district (ISD) FICA payments, \$12.0 million in savings from changing the pupil blend from 75/25 to 90/10, and a \$3.3 million reduction to ISD operational funding.
- The budget does include three one-time spending measures that may partially offset some of the ongoing reductions, for districts that qualify: \$13.5 million for partial restoration of class-size reduction grants; \$155.0 million for one-time Michigan Public School Employees' Retirement System (MPERS) payments; and \$154.0 million for one-time best practices funding. Another \$133.0 million is deposited into a reserve for MPERS retirement liabilities. These last four items total \$455.5 million and are for FY 2011-12 only.
- There is an increase in required debt service for the School Bond Loan Fund from \$5.2 million to \$93.6 million in FY 2011-12 to reflect the refinancing that occurred in FY 2010-11.
- The MPERS retirement rate will increase from 20.66% of payroll to 24.46% of payroll, for employees hired before July 1, 2010. For employees hired on or after July 1, 2010, the retirement rate will be 23.23% of payroll. The increase in retirement rates equates to additional school district costs of an estimated \$245 per pupil.
- The State School Aid Act (Public Act 62 of 291) now includes the budgets for Community Colleges and Higher Education in the statutory K-12 budget bill.

FY 2012-13

- The recommendation for FY 2012-13 includes minor technical cost adjustments, but all other spending remains the same as that for FY 2011-12 with the exception of the one-time appropriations listed previously.

Table 11

SUMMARY OF FY 2011-12 AND FY 2012-13 SCHOOL AID BUDGET		
	Impact on K-12 Budget in FY 2011-12 (compared to FY 2010-11)	Impact on K-12 Budget in FY 2012-13 (compared to FY 2010-11)
<u>Revenue Reductions to K-12 Schools</u>		
Elimination of MBT and other tax changes – Impact on School Aid Fund (SAF).....	(\$689.9) million	(\$662.1) million
Additional GF/GP to partially offset tax changes.....	100.0 million	0.0 million
Subtotal: Net SAF loss from tax changes.....	(\$589.9) million	(\$662.1) million
Funding portion of Community Colleges from SAF	(195.9) million	(195.9) million
Funding portion of Higher Education from SAF.....	(200.0) million	(200.0) million
Subtotal: Net SAF loss from funding Community Colleges/Higher Education	(\$395.9) million	(\$395.9) million
TOTAL SAF REVENUE LOSS FROM TAX CHANGES AND FUNDING POSTSECONDARY	(\$985.8) million	(\$1.1) billion
<u>Expenditure Reductions to K-12 Schools</u>		
<u>Foundation Allowance:</u>	(\$452.5) million	(\$452.5) million
Statutorily rolled back \$470 per pupil. This is a combination of the existing \$170-per-pupil cut in State aid plus a further \$300 reduction (\$452.5 million). In FY 2010-11, the \$170-per-pupil cut in State aid was backfilled with unrestricted Federal Education Jobs Fund; the FY 2011-12 budget does not replace this expiring money.		
<u>Categoricals Eliminated or Reduced:</u>		
Declining Enrollment (\$20.0 million)	(75.5) million	(80.5) million
Class Size Reduction (\$19.7 million)		
Special Education FICA ISDs (\$15.3 million)		
Membership Blend Change (\$12.0 million)		
District Specials (\$4.6 million)		
5% Cut ISD Operations (\$3.3 million)		
Bilingual Education (\$2.8 million)		
MBT Impact (\$1.1 million)		
Other Adjustments \$3.3 million		
TOTAL ONGOING STATE EXPENDITURE REDUCTIONS	(\$528.0) million	(\$533.0) million

Table 12
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance.....	\$645.9
Consensus Revenue Estimate (May 2011).....	\$11,335.3
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant	\$118.6
Federal Ongoing Aid	1,653.3
Tax Code Reforms	(593.9)
Updated Estimate of Tax Code Reforms.....	(96.0)
Nontax Revenue Adjustments.....	(8.0)
Subtotal Other Revenue Adjustments	\$1,074.0
Total Estimated School Aid Fund Revenue	\$13,055.2
Expenditures:	
Initial Ongoing K-12 Appropriations	\$12,203.6
Partially Fund Community Colleges with School Aid Fund.....	195.9
Partially Fund Higher Education with School Aid Fund	200.0
<u>One-Time Appropriations:</u>	
Public School Employees Retirement System (MPERS) Payments	\$155.0
K-12 Best Practices.....	154.0
MPERS Retirement Obligation Reform Reserve Fund	133.0
Partially Restore K-12 Small Class Size Grants.....	13.5
Subtotal One-Time Appropriations.....	\$455.5
Total Estimated School Aid Fund Expenditures	\$13,055.0
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$0.2

State Budget Outlook for FY 2012-13

- The FY 2011-12 annual appropriation act for each State budget area includes language expressing legislative intent to provide the same appropriations for FY 2012-13 as those for FY 2011-12, except that the line items will be adjusted for changes in caseload and related costs, Federal fund match rates, economic factors, and available revenue.
- At the next Consensus Revenue Estimating Conference in January 2012, there is a new statutory requirement to forecast revenue for three fiscal years: FY 2011-12, FY 2012-13, and FY 2013-14, and to also provide trend-line projections for FY 2014-15 and FY 2015-16. This five-year forecast is intended to allow for more long-range budget planning.
- The May 2011 consensus conference, after accounting for the recent tax restructuring, estimated FY 2012-13 combined GF/GP and School Aid Fund revenue growth of only 2.5%.
- The potential weakening of the national economy could cause the FY 2011-12 and FY 2012-13 revenue estimates to be revised downwards. The significant downsizing that occurred in FY 2011-12 ongoing State appropriations would likely need to be maintained.

Recent State Appropriation History

Table 13

ADJUSTED GROSS APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,953.3	1,535.6	4.3
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,908.5	793.2	2.0
2005-06	41,322.7	1,414.2	3.5
2006-07	41,851.8	529.1	1.3
2007-08	43,616.5	1,764.7	4.2
2008-09	47,941.9	4,325.4	9.9
2009-10	45,656.6	(2,285.3)	(4.8)
2010-11 Y-T-D	47,974.7	2,318.1	5.1
2011-12 Initial Ongoing	46,024.7	(1,949.0)	(4.1)
Change FY 2001-02 to FY 2011-12		\$7,273.4	18.8%

Table 14

STATE SPENDING FROM STATE RESOURCES APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,761.6	1,182.6	4.8
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,704.0	1,418.7	5.4
2006-07	27,928.6	224.6	0.8
2007-08	28,441.7	513.1	1.8
2008-09	26,309.8	(2,131.5)	(7.5)
2009-10	25,239.0	(1,070.8)	(4.1)
2010-11 Y-T-D	26,234.7	995.7	3.9
2011-12 Initial Ongoing	26,259.8	26.1	0.1
Change FY 2001-02 to FY 2011-12		\$173.0	0.7%

Table 15

GENERAL FUND/GENERAL PURPOSE APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,702.8	(67.3)	(0.8)
2005-06	9,106.3	415.5	4.8
2006-07	9,118.7	12.4	0.1
2007-08	9,980.7	862.0	9.5
2008-09	8,568.6	(1,412.0)	(14.1)
2009-10	7,787.4	(781.3)	(9.1)
2010-11 Y-T-D	8,424.6	637.2	8.2
2011-12 Initial Ongoing	8,275.2	(148.4)	(1.8)
Change FY 2001-02 to FY 2011-12		(\$914.1)	(9.9%)

Table 16

SCHOOL AID APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	State-Funded Appropriations	Dollar Change	Percent Change
1997-98	\$9,307.4	\$749.1	8.8%
1998-99	9,495.1	187.7	2.0
1999-2000	9,957.6	462.5	4.9
2000-01	10,732.3	774.7	7.8
2001-02	11,220.6	488.3	4.5
2002-03	11,334.6	114.0	1.0
2003-04	11,059.3	(275.3)	(2.4)
2004-05	11,113.5	54.2	0.5
2005-06	11,308.1	194.6	1.8
2006-07	11,597.0	288.9	2.6
2007-08	11,421.8	(175.2)	(1.5)
2008-09	11,097.8	(324.0)	(2.8)
2009-10	10,675.1	(422.7)	(3.8)
2010-11 Y-T-D	10,775.9	100.8	0.9
2011-12 Initial Ongoing	10,550.2	(225.7)	(2.1)
Change FY 2001-02 to FY 2011-12		(\$670.4)	(6.0%)

Table 17

K-12 SCHOOLS MINIMUM FOUNDATION ALLOWANCE				
Fiscal Year	Enacted Per Pupil	After Reductions	Percent Change	
2000-01	\$6,000	\$6,000	N/A	
2001-02	6,500	6,500	8.3%	
2002-03	6,700	6,626	1.9	
2003-04	6,700	6,626	0.0	
2004-05	6,700	6,700	1.1	
2005-06	6,875	6,875	2.6	
2006-07	7,108	7,085	3.4	
2007-08	7,204	7,204	1.4	
2008-09	7,316	7,316	1.6	
2009-10	7,316	7,151	(2.3)	
2010-11 Y-T-D	7,316	7,146	0.0	
2011-12 Enacted	6,846	6,846	(4.2)	
10-Year Change	346	346		
10-Year % Change	5.3%	5.3%		
10-Year Detroit CPI % Change	20.7%	20.7%		

Table 18

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS TOTAL COMPARED TO SELECTED BUDGET AREAS (Millions of Dollars)				
Budget Area	FY 2001-02 Year-to-Date Appropriations	FY 2011-12 Ongoing Appropriations	Change	Percent Change
Community Health	\$3,066.1	\$4,901.0	\$1,835.0	59.8%
Corrections	1,653.0	1,927.2	274.2	16.6
Human Services	1,230.1	1,155.3	(74.8)	(6.1)
K-12 School Aid	11,220.6	10,550.2	(670.3)	(6.0)
Community Colleges	320.2	283.9	(36.3)	(11.3)
Higher Education	1,940.9	1,264.0	(676.9)	(34.9)
Revenue Sharing	1,517.3	959.0	(558.3)	(36.8)
All Other Programs	5,138.6	5,219.2	80.6	1.6
Total State Spending	\$26,086.8	\$26,259.8	\$173.0	0.7%
Addendum:				
Medicaid Caseload	1,211,816	1,920,000	708,184	58.4%
Prison Population	47,270	43,455	(3,815)	(8.1)
K-12 Pupil Count	1,647,459	1,552,300	(95,159)	(5.8)
University Students	241,205	262,615	21,410	8.9
Community College Students	116,802	177,277	60,475	51.8
Mich. Personal Income (millions)	\$301,496.0	\$359,985.0	\$58,489.0	19.4%
Detroit Consumer Price Index	177.5	214.2	36.7	20.7%